

Liquor Control

MISSION STATEMENT

The mission of the Department of Liquor Control (DLC) is to provide efficient and quality wholesale and retail sales of beverage alcohol products while promoting moderation and responsible behavior in all phases of distribution and consumption. The department diligently promotes and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

BUDGET OVERVIEW

The total expenditures in the FY05 Operating Budget for the Department of Liquor Control are \$32,310,470, an increase of \$6,212,830 from the FY04 approved budget of \$26,097,640. Personnel costs comprise 53.1 percent of the budget for 234 full-time positions and 55 part-time positions for 293.2 workyears. Operating Expenses and Capital Outlay account for the remaining 46.9 percent of the FY05 budget. These projections and proposed expenditures form the basis for working capital decisions concerning the Liquor Enterprise Fund.

The following information is provided to facilitate County Council and public input for final County Executive decisions on the determination of adequate working capital within, and use of resources in, the Liquor Enterprise Fund and net proceeds to be deposited to the General Fund. Consistent with Article 2B, Section 15-207, the County Executive must make resource allocation decisions for the Fund.

PROGRAM CONTACTS

Contact Dick Duthoy of the Department of Liquor Control at 240.777.6637 or Merrill Oliver of the Office of Management and Budget at 240.777.2757 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Warehouse Operations

This program involves management of the County's liquor warehouse and includes the purchase, receipt, and storage of over 14,000 different stock and special order items.

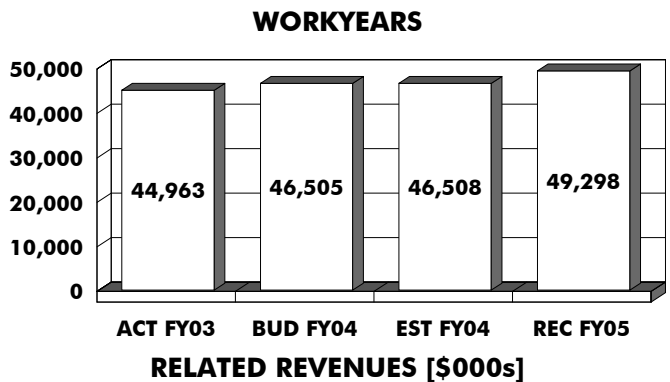
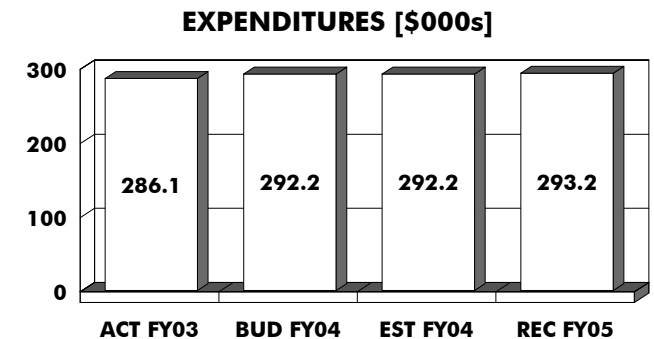
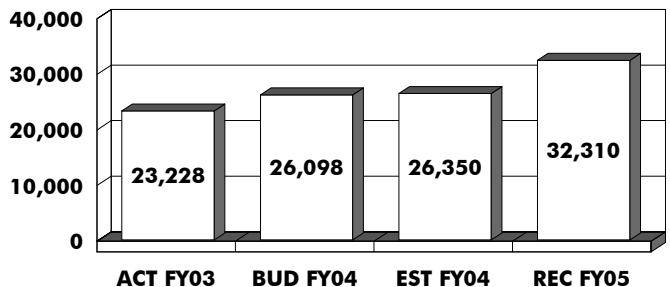
FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	4,173,670	58.7
Increase Cost: Debt Service on new Temperature Controlled Liquor Warehouse Expansion	804,000	0.0
Shift: Fixed costs to warehouse operations	298,640	0.0
Increase Cost: Purchase of three warehouse doors for OSHA and NFPA compliance	75,000	0.0

Program Summary

	Expenditures	WYs
Warehouse Operations	5,549,520	59.7
Delivery Operations	4,799,780	76.2
Retail Sales Operations	12,226,840	125.1
Retail Contracted Operations	660,000	0.0
Community Outreach	99,090	1.0
Fixed Costs	0	0.0
Accounting and Inventory Systems	1,972,530	19.1
Information Management	6,315,300	9.6
Administration	687,410	2.5
Totals	32,310,470	293.2

Trends



Increase Cost: Purchase two fork lifts	60,000	0.0
Enhance: Utilities and maintenance for Temperature Controlled Warehouse	121,060	0.0
Increase Cost: Printers	28,000	0.0
Increase Cost: Warehouse Worker Group position	24,770	0.0
Increase Cost: Contractor sales commissions	20,000	0.0
Decrease Cost: One-time items approved in FY04	-22,000	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	-33,620	1.0
FY05 CE Recommended	5,549,520	59.7

Delivery Operations

This program includes the distribution of distilled spirits, wine, and beer to licensed establishments and County retail stores.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	4,427,480	76.2
Shift: Fixed costs to delivery operations	298,640	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	73,660	0.0
FY05 CE Recommended	4,799,780	76.2

Retail Sales Operations

This program oversees sales of distilled spirits, wine, and beer to off-sale retail customers through the operation of retail stores (22 County-staffed and operated and three contractor operated) located throughout Montgomery County.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	11,859,470	125.1
Shift: Fixed costs to retail sales operations	398,190	0.0
Increase Cost: Store leases	107,380	0.0
Decrease Cost: Store maintenance, repairs and refurbishments	-39,450	0.0
Decrease Cost: Eliminate one-time costs associated with store relocations (Cloverly and Twinbrook)	-150,000	0.0
Decrease Cost: One-time items approved in FY04	-167,500	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	218,750	0.0
FY05 CE Recommended	12,226,840	125.1

Retail Contracted Operations

Article 2B of the Annotated Code of Maryland allows the County to hire contractors to operate County liquor stores. The County must retain title to all retail stock until sold. The County Council adopted Council Resolution No. 12-452 on November 12, 1991, mandating that the County contract with qualified contractors to operate selected stores. The Kensington, Muddy

Branch, and the Pike sites were selected for contracting, and in the Fall of 1992, contractor staff replaced the County employees. In Fall 1994, the Flower Avenue store became a contractor-operated facility. In December 2000, the Kensington store reverted to County operation. State legislation allows the Director of the Department of Liquor Control to contract the operation of a retail outlet only with those persons who had a contract in effect on January 1, 1997.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	640,000	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	20,000	0.0
FY05 CE Recommended	660,000	0.0

Community Outreach

This program defines issues and strategies and monitors efforts with various agencies, departments, civic organizations, businesses, and individuals to provide and coordinate innovative programs and measures to ensure safe and vibrant communities relative to the service and consumption of beverage alcohol.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	0	0.0
Shift: Director's Office expenses to Community Outreach	99,090	1.0
FY05 CE Recommended	99,090	1.0

Fixed Costs

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	995,470	0.0
Shift: Fixed costs to warehouse, delivery and retail sales operations	-995,470	0.0
FY05 CE Recommended	0	0.0

Accounting and Inventory Systems

This program provides accounting and financial services for the department. Staff performs day-to-day accounting functions, special analysis and reporting, and the preparation and monitoring of the department's budget.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	1,812,450	18.1
Enhance: Contractor Liaison	58,720	1.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	101,360	0.0
FY05 CE Recommended	1,972,530	19.1

Information Management

This program provides for the operation, maintenance, and protection of all information technology initiatives of the department. These initiatives include, but are not limited to, the warehouse inventory system, the retail point-of-sale system, and numerous personal computer applications.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	1,433,220	10.6
Enhance: Information Technology System	4,960,340	0.0
Decrease Cost: One-time items approved in FY04	-76,540	0.0
Decrease Cost: Lapse Information Technology Manager	-114,160	-1.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	112,440	0.0
FY05 CE Recommended	6,315,300	9.6

Administration

This program provides overall direction, administration, and supervision for the department.

FY05 Recommended Changes

	Expenditures	WYs
FY04 Approved	755,880	3.5
Shift: Director's Office expenses to Community Outreach	-99,090	-1.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	30,620	0.0
FY05 CE Recommended	687,410	2.5

BUDGET SUMMARY

	Actual FY03	Budget FY04	Estimated FY04	Recommended FY05	% Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	11,886,759	12,359,340	12,030,008	12,775,210	3.4%
Employee Benefits	3,311,724	4,020,370	4,010,002	4,365,750	8.6%
Liquor Control Personnel Costs	15,198,483	16,379,710	16,040,010	17,140,960	4.6%
Operating Expenses	7,713,871	8,933,430	9,688,790	14,626,510	63.7%
Debt Service Other	0	175,000	0	0	—
Capital Outlay	315,875	609,500	621,500	543,000	-10.9%
Liquor Control Expenditures	23,228,229	26,097,640	26,350,300	32,310,470	23.8%
PERSONNEL					
Full-Time	233	233	233	234	0.4%
Part-Time	30	55	55	55	—
Workyears	286.1	292.2	292.2	293.2	0.3%
REVENUES					
Operating Revenue	44,962,719	46,504,980	46,508,000	49,298,480	6.0%
Liquor Control Revenues	44,962,719	46,504,980	46,508,000	49,298,480	6.0%

FUTURE FISCAL IMPACTS

Title	CE REC. FY05	FY06	FY07	(S000's) FY08	FY09	FY10
This table is intended to present significant future fiscal impacts of the department's programs.						
LIQUOR CONTROL						
Expenditures						
FY05 Recommended	32,310	32,310	32,310	32,310	32,310	32,310
No inflation or compensation change is included in outyear projections.						
Controlled Environment Beer Warehouse - Debt Service	0	930	930	930	930	930
This is the debt service for the controlled environment beer warehouse expansion that is programed to begin in FY05.						
Elimination of One-Time Items Approved in FY05	0	-5,503	-5,503	-5,503	-5,503	-5,503
Items recommended for one-time funding in FY05, including fork lifts, IT system, delivery trucks, warehouse doors, and printers, will be eliminated from the base in the outyears.						
Equipment Replacement Schedule	0	468	468	468	468	468
Replacement of delivery trucks and forklifts.						
IT Maintenance	0	0	326	341	360	375
IT System Upgrade	0	1,121	0	0	0	0
Labor Contracts	0	767	1,596	1,746	1,746	1,746
These figures represent the annualization of FY05 increments, general wage adjustments, and associated benefits. Estimated compensation (e.g., general wage adjustment and service increments) for personnel are included for FY06 and beyond.						
New Retail Store in Each Year, FY07 - FY10 - Sites to be Determined	0	0	415	755	1,095	1,435
Temperature Controlled Liquor Warehouse (Maintenance & Utilities)	0	214	216	219	222	225
Subtotal Expenditures	32,310	30,307	30,758	31,266	31,628	31,986

FY05-10 PUBLIC SERVICES PROGRAM: FISCAL PLAN			LIQUOR CONTROL					
FISCAL PROJECTIONS	FY04 APPROVED	FY04 ESTIMATE	FY05 REC	FY06 PROJECTION	FY07 PROJECTION	FY08 PROJECTION	FY09 PROJECTION	FY10 PROJECTION
ASSUMPTIONS								
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	2.4%	2.7%	2.4%	2.3%	2.4%	2.5%	2.4%	2.3%
Net Sales Increase Per Year	0	0	0	0.055	0.055	0.055	0.055	0.055
BEGINNING FUND BALANCE	2,868,780	4,773,850	4,430,520	917,500	2,119,530	3,099,730	3,133,870	3,162,170
REVENUES								
Charges For Services	46,504,980	46,508,000	49,298,480	52,009,900	55,921,047	60,185,024	61,629,460	66,199,287
Subtotal Revenues	46,504,980	46,508,000	49,298,480	52,009,900	55,921,047	60,185,024	61,629,460	66,199,287
INTERFUND TRANSFERS (Net Non-CIP)	(20,501,030)	(20,501,030)	(20,501,030)	(20,501,030)	(24,183,175)	(28,885,128)	(29,973,399)	(34,185,199)
Transfers To The General Fund	(20,501,030)	(20,501,030)	(20,501,030)	(20,501,030)	(24,183,175)	(28,885,128)	(29,973,399)	(34,185,199)
Indirect Costs	(1,672,780)	(1,672,780)	(1,714,100)	(1,714,100)	(1,714,100)	(1,714,100)	(1,714,100)	(1,714,100)
Desktop Computer Modernization	(38,100)	(38,100)	(38,100)	(38,100)	(38,100)	(38,100)	(38,100)	(38,100)
Earnings Transfer	(18,790,150)	(18,790,150)	(18,748,830)	(18,748,830)	(22,430,975)	(27,132,928)	(28,221,199)	(32,432,999)
TOTAL RESOURCES	28,872,730	30,780,820	33,227,970	32,426,370	33,857,402	34,399,626	34,789,931	35,176,258
CIP CURRENT REVENUE APPROP.	0	0	0	0	0	0	0	0
PSP OPER. BUDGET APPROP/ EXP'S.								
Operating Budget	(25,922,640)	(26,350,300)	(32,310,470)	(32,310,470)	(32,310,470)	(32,310,470)	(32,310,470)	(32,310,470)
IT System Acquisition	0	0	0	3,839,620	4,960,340	4,960,340	4,960,340	4,960,340
IT System Maintenance				0	(326,000)	(341,000)	(360,000)	(375,000)
Debt Service: Other (Non-Tax Funds only)	(175,000)	0	0	(930,000)	(930,000)	(930,000)	(930,000)	(930,000)
Labor Agreement	0	0	0	(766,990)	(1,595,540)	(1,745,630)	(1,745,630)	(1,745,630)
Annualizations and One-Time	0	0	0	543,000	543,000	543,000	543,000	543,000
New Stores	0	0	0	0	(415,000)	(755,000)	(1,095,000)	(1,435,000)
Warehouse Renovations			0	(214,000)	(216,000)	(219,000)	(222,000)	(225,000)
Equipment Replacement	0	0	0	(468,000)	(468,000)	(468,000)	(468,000)	(468,000)
Subtotal PSP Oper Budget Approp / Exp's	(26,097,640)	(26,350,300)	(32,310,470)	(30,306,840)	(30,757,670)	(31,265,760)	(31,627,760)	(31,985,760)
OTHER CLAIMS ON FUND BALANCE	0	0	0	0	0	0	0	0
TOTAL USE OF RESOURCES	(26,097,640)	(26,350,300)	(32,310,470)	(30,306,840)	(30,757,670)	(31,265,760)	(31,627,760)	(31,985,760)
YEAR END FUND BALANCE	2,775,090	4,430,520	917,500	2,119,530	3,099,730	3,133,870	3,162,170	3,190,500
END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES	9.6%	14.4%	2.8%	6.5%	9.2%	9.1%	9.1%	9.1%

Assumptions:

1. Ending cash balance = One month's Operating Expenses, One payroll, and \$1.5M for inventory.
2. Net Sales growth estimated at 5% per year
3. Operating Revenue growth estimated at 5% per year
4. Operating Expenses grow with Major Known Commitments and not CPI.
5. No new store added in FY05 or FY06

LIQUOR CONTROL

PROGRAM:

Retail Operations

PROGRAM ELEMENT:
PROGRAM MISSION:

To provide efficient, customer-friendly retail stores that compete successfully with stores in surrounding jurisdictions both in price and selection; that comply with all laws; and that return a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY01 ACTUAL	FY02 ACTUAL	FY03 ACTUAL	FY04 BUDGET	FY05 CE REC
Outcomes/Results:					
Gross profit (\$000)	17,845	19,359	20,960	21,671	22,989
Net income (\$000) ^a	6,236	7,326	7,801	6,854	5,920
General Fund transfer (\$000) ^b	5,004	7,609	6,963	6,984	8,553
Service Quality:					
Board of License Commissioners inspection violations	1	1	2	0	0
Montgomery County Police Department inspection violations	4	2	0	0	0
Percentage of customers satisfied with customer service offered	NA	96	96	96	100
Percentage of customers satisfied with facility and design	NA	93	94	94	100
Percentage of customers satisfied with product selection	NA	91	89	93	100
Percentage of customers satisfied with product pricing	NA	87	87	92	100
Efficiency:					
Ratio of gross profit to labor costs	3.3	3.2	3.4	2.7	2.8
Ratio of sales to gross profit	3.1	3.1	3.1	3.1	3.2
Ratio of sales to net income	8.9	8.2	8.4	9.7	12.4
Ratio of sales to operating expenses less depreciation	4.9	5.1	5.1	4.4	4.1
Workload/Outputs:					
Sales (\$000)	55,401	60,235	65,512	66,714	73,449
Cases transferred in (000)	645	686	734	750	795
Inputs:					
Operating expenses excluding depreciation (\$000)	11,403	11,848	12,962	15,270	17,980
Labor costs including salaries and benefits (\$000)	5,370	6,040	6,223	8,043	8,313
Workyears	130.0	117.0	120.0	125.1	125.1

Notes:

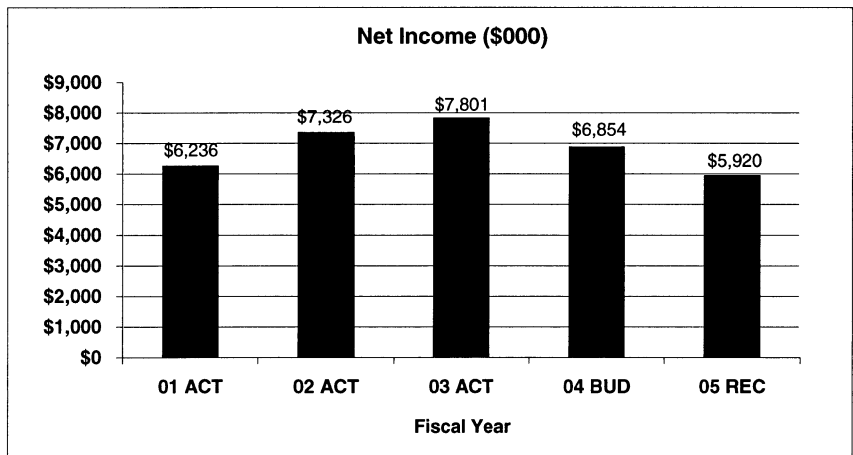
^aGAAP basis: revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded; and depreciation is included.

^bEstimate of total transfer attributed to retail operations.

EXPLANATION:

Retail Operations consists of County-managed stores and contractor-managed stores. In March, 2004, the County added a new store, making the total 25. Under Article 2B of the Annotated Code of Maryland, the County may hire contractors to operate up to four County retail stores. Currently, three stores are contractor-managed. The County retains title to all stock in contract stores until it is sold.

While gross profit has been increasing steadily, net income is expected to decline after FY03. In FY05, the Department plans to undertake new investments in computer upgrades and physical improvements to the warehouse.



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.

LIQUOR CONTROL

PROGRAM:

Wholesale Operations

PROGRAM ELEMENT:
PROGRAM MISSION:

To ensure the availability and delivery of beer, wine, and other beverage alcohol to wholesale licensees and retail stores at reasonable prices, in good condition, and in a manner that complies with all laws and returns a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY01 ACTUAL	FY02 ACTUAL	FY03 ACTUAL	FY04 BUDGET	FY05 CE REC
Outcomes/Results:					
Gross profit (\$000)	21,297	23,074	23,987	24,834	26,309
Net income (\$000) ^a	12,994	14,179	13,535	11,925	10,271
General Fund transfer (\$000) ^b	10,427	14,726	12,115	13,517	11,948
Service Quality:					
Percentage of customers satisfied with employees' friendliness and professionalism	86	88	84	93	100
Percentage of customers satisfied with level of customer service provided	64	65	79	74	100
Percentage of customers satisfied with product integrity	87	87	86	84	100
Percentage of customers satisfied with product selection	82	85	80	80	100
Efficiency:					
Ratio of gross profit to labor costs	2.9	2.8	2.7	2.9	3.0
Ratio of sales to gross profit	4.0	3.9	3.8	4.0	3.9
Ratio of sales to net income	6.6	6.3	6.8	8.4	10.0
Ratio of sales to operating expense less depreciation	10.8	10.5	9.2	8.5	7.4
Workload/Outputs:					
Sales (\$000)	85,275	89,817	91,527	99,655	102,617
Cases sold (000)	3,845	3,945	3,891	4,380	4,642
Inputs:					
Operating expenses excluding depreciation (\$000) ^c	7,863	8,536	9,950	11,756	13,787
Labor costs including salary and benefits (\$000)	7,223	8,123	8,976	8,541	8,828
Workyears	152.0	157.0	166.0	167.1	168.1

Notes:

^aGAAP basis: revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded; depreciation is included.

^bEstimate of earnings transfer attributed to wholesale operations.

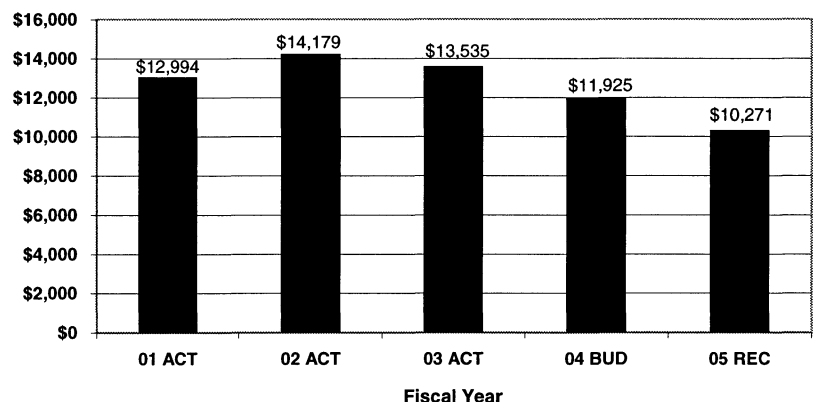
^cOperating expenses include the night loading contract.

EXPLANATION:

Wholesale Operations consists of Warehouse Operations and Delivery Operations. The Warehouse Operations portion involves management of the warehouse facility and includes receipt, storage, and loading of distilled spirits, wine, and beer. Delivery Operations includes the distribution of distilled spirits, wine, and beer to approximately 870 private retailers and 25 County stores. (The 25th store was opened in March, 2004.)

While gross profit has been increasing steadily, net income peaked in FY02 and is projected to decline through FY05. In that year, the Department of Liquor Control plans to undertake new investments in computer upgrades and physical improvements to the warehouse.

Net Income (\$000)



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.